

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF )  
THE TOWN OF CHANDLER, INDIANA, )  
FOR APPROVAL OF A NEW SCHEDULE )  
OF RATES AND CHARGES FOR WATER )  
UTILITY SERVICE AND FOR )  
AUTHORITY TO ISSUE REVENUE ) CAUSE NO. 45062  
BONDS TO PROVIDE FUNDS FOR THE )  
COSTS OF THE ACQUISITION AND )  
INSTALLATION OF IMPROVEMENTS )  
AND EXTENSIONS TO THE )  
WATERWORKS OF THE TOWN )

SUBMISSION OF PROPOSED ORDER

Petitioner, the Town of Chandler, Indiana, by counsel, hereby submits its Proposed  
Order.

Respectfully submitted,  
Town of Chandler, Indiana

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**CERTIFICATE OF SERVICE**

The undersigned certifies that a copy of the foregoing was served, by electronic mail delivery, this 10th day of October, 2018, to:

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**BY THE COMMISSION:**

**David Ziegner, Commissioner**

**Loraine L. Seyfried, Administrative Law Judge**

On March 13, 2018, the Town of Chandler, Indiana (“Chandler” or “Petitioner”) filed with the Indiana Utility Regulatory Commission (“Commission”) its Petition for approval of a new schedule of rates and charges for water utility service rendered by Chandler’s waterworks and authority to issue notes, bonds, or other obligations. Included with its Petition, Chandler filed the direct testimony, including attachments, of Robert D. Coghill, Superintendent for the Chandler Water and Sewer Utility, which is owned by Chandler; J. Christopher Kaufman Jr., with Beam, Longest and Neff, LLC (“BLN”); and Scott A. Miller, CPA, H.J. Umbaugh & Associates, Certified Public Accountants, LLP (“Umbaugh”).

On April 6, 2018, Petitioner and the Indiana Office of Utility Consumer Counselor (“OUCC”) filed a Stipulation and Agreement in Lieu of Prehearing Conference. On April 6, 2018, the Commission issued a docket entry vacating the prehearing conference and establishing a procedural schedule in this Cause.

On April 2, 2018, the OUCC filed Notice of Non-Compliance of Petitioner’s Minimum Standard Filing Requirements. On April 13, 2018, Petitioner filed Supplemental Direct Testimony and Exhibits reflecting the supplemental case-in-chief evidence requested for minimum standard filing requirements and addressed in the Commission’s entry on April 6, 2018.

On August 10, 2018, the OUCC filed the testimony and attachments constituting its case-in-chief of Richard J. Corey – Utility Analyst in the OUCC’s Water/Wastewater Division, James T. Parks – Utility Analyst II with the OUCC, Edward R. Kaufman – Assistant Director of the OUCC’s Water and Wastewater Division, and Jerome D. Mierzwa, Principal and Vice President

of Exeter Associates, Inc. ("Exeter"). On August 14, 2018, the OUCC filed Notice of Omitted Schedules and Supplemental Filing.

On August 31, 2018, Petitioner filed the rebuttal testimony of Mr. Coghill, Mr. Christopher Kaufman, and Mr. Miller. Petitioner also filed Corrections to Rebuttal Exhibits on September 11, 2018, and a Second Submission of Corrections to Rebuttal Exhibits on September 17, 2018.

Pursuant to notice published as required by law, a public evidentiary hearing commenced on September 25, 2018, at 9:30 a.m., in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Proofs of publication of the notice of the hearing were incorporated into the record of this proceeding by reference. Petitioner and the OUCC were present and participated. No members of the general public appeared or sought to testify at the hearing.

Having considered the evidence of record as well as the applicable law, the Commission now finds that:

**1. Notice and Jurisdiction.** Due, legal, and timely notice of the hearings conducted in this cause was given as required by law. Chandler is a municipally owned utility as defined by Ind. Code § 8-1-2-1(h). Under Ind. Code § 8-1-2-42 and -42.7 and Ind. Code § 8-1.5-3-8(f)(2) the Commission has jurisdiction over changes to Chandler's water utility rates and charges. Further, the Commission has jurisdiction under Ind. Code 8-1.5-2-19 to approve issuances of long-term debt. Thus, this Commission has jurisdiction over Chandler and the subject matter of this proceeding.

**2. Petitioner's Characteristics.** Petitioner owns and operates municipal waterworks facilities providing water sales and service to customers in and near the Town of Chandler, Indiana.

**3. Relief Requested.** Petitioner requests authority to issue approximately \$29,294,000 in bonds, notes, or other evidence of indebtedness; and increase its rates and charges by approximately 49.9%.

**4. Test Year.** The test year selected for determining Petitioner's actual and pro forma operating revenues, expenses and operating income under present and proposed rates was the twelve months ended August 31, 2017. With adjustments for changes that are fixed, known, and measurable, we find that this test period is sufficiently representative of Petitioner's normal operations to provide reliable data for ratemaking purposes.

**5. The Parties' Evidence.**

**A. Chandler's Case-in-Chief.** Chandler introduced evidence from its Water Superintendent, Robert D. Coghill. He sponsored Attachment RDC-1, the three resolutions approved by Chandler's Town Council authorizing Chandler to file the request for Commission authority to increase water rates by an amount not to exceed (a) thirty-one percent (31%) for residential customers, (b) seventy-nine percent (79%) for small commercial customers, (c) one

hundred thirty-five percent (135%) for large commercial customers, and (d) fifty-eight percent (58%) for fire protection, as well as other actions related to the relief requested in this Cause. Mr. Coghill described Chandler's waterworks system and new water infrastructure projects that Chandler proposes to undertake. He explained the need and justification for: (1) the Bell Road Relocation Project, (2) the Downtown Replacement Project, and (3) the Transmission Line Project (collectively, the "Project"). He explained that, due to recent growth, Chandler needs to expand the capacities of its various waterworks facilities and relocate others.

Mr. J. Christopher Kaufman Jr., the water resources department manager for BLN, described the Project Chandler proposes to undertake, as well as preliminary cost estimates regarding those improvements and extensions. Mr. Kaufman sponsored Attachment JCK-1, a draft of BLN's Water Improvement Project Preliminary Engineering Report ("PER"), which projected an average growth rate of 1.8% per year through the 20-year planning period. He stated that in addition to witnessing substantial growth, significant portions of Chandler's distribution and transmission facilities are nearing the end of their useful lives, necessitating major rehabilitation or replacement. Due to a relocation of Bell Road by Warrick County and the Indiana Department of Transportation ("INDOT") in 2019, Mr. Kaufman testified that portion of the Project is a priority for Chandler. He sponsored Attachment JCK-2, a map of the Bell Road relocation. Mr. Kaufman noted that Chandler is responsible for the cost of the relocation project and estimated construction costs for it in 2017 dollars is about \$1.5 million, plus an additional \$450,000 in non-construction costs, for a total of \$1.95 million, not counting right-of-way services, land cost, legal, financial, or other professional services. Mr. Kaufman addressed the scope and need for the downtown replacement portion of the Project and sponsored Attachment JCK-3, a map detailing the location of the mains and various assets relating to the Downtown Replacement Project. He estimated construction cost of this project in 2017 dollars is about \$5.66 million, plus an additional \$1.698 million in non-construction costs for a total of \$7.358 million. Finally, Mr. Kaufman recommended that Chandler construct an additional transmission line to provide additional capacity and redundancy. He sponsored Attachment JCK-4 depicting the route of the Transmission Line and properties affected by it, estimated the cost, in 2017 dollars, as about \$13.02 million, plus an additional \$3.906 million in non-construction costs, for a total of \$16.926 million.

Mr. Scott A. Miller, a certified public accountant and partner with Umbaugh, reviewed Chandler's rate needs and sponsored the Accounting Report as set forth in Attachment SAM-1. Mr. Miller testified the Report contains pro forma financial information for Chandler's test year, the 12 months ended August 31, 2017, adjusted for fixed, known and measurable changes during the succeeding 12 months. Mr. Miller described Chandler's proposal to issue \$29,294,000 in debt through the State Revolving Fund ("SRF"). Petitioner's Ex. 3, p. 8. He testified that, consistent with the statutory elements that govern establishment of rates for municipalities, an overall increase of approximately 49.9% is justified and an increase in the system development charge ("SDC") is warranted. He explained the primary drivers of Chandler's request were (1) mounting cash deficits that need to be halted; (2) the need for a \$29,294,000 bond issue for various capital projects; and (3) the need to rebuild cash reserves.

Mr. Miller testified regarding the adjustments that were made in Umbaugh's Accounting Report to arrive at the *pro forma* annual revenue requirement. He noted adjustments were made to reflect current price levels for labor, employee benefits, taxes, and insurance, as

well as to provide for periodic costs such as well and pump maintenance, storage tank maintenance, filter maintenance, and meter replacement, and to address non-recurring items. He noted that once the actual construction bids are received, Chandler will be able to appropriately size the proposed borrowing. In addition, upon closing with SRF, the actual interest rate and annual debt service requirement would be known and Chandler could perform a true-up calculation on the rates and charges. Mr. Miller explained Chandler's class cost of service study ("CCOSS"), its details, and rate design calculations. He testified regarding his calculation of the public fire protection charges and Chandler's proposed system development charge ("SDC") of \$1,470.

Mr. Miller concluded his testimony by stating that in his opinion, the rates proposed in Umbaugh's Accounting Report are fair, just, non-discriminatory, and reasonable and necessary to meet the projected revenue requirements of the waterworks utility, as those requirements have been approved by Chandler.

**B. OUCC's Case-in-Chief.** The OUCC offered prefiled testimony from Richard J. Corey, James T. Parks, Edward R. Kaufman, and Jerome D. Mierzwa.

Mr. Richard J. Corey, a Utility Analyst in the OUCC's Water/Wastewater Division, testified regarding the OUCC's recommended revenue adjustments to reflect test year customer growth. He discussed his proposed adjustments to operating expenses, including periodic maintenance expense, utility receipts taxes, and the removal of costs that are non-recurring, non-allowed, or capital in nature. He also discussed the OUCC's proposed SDC of \$675. Mr. Corey's analysis yielded a proposed overall rate increase of 29.3%.

Mr. James T. Parks, a Utility Analyst II in the OUCC's Water/Wastewater Division, explained the OUCC's position that Chandler overestimated its total Project costs. Specifically, Mr. Parks considered Chandler's allowances for 20% contingencies and 30% engineering costs as both overestimated. Mr. Parks reduced the project contingencies to 10% (from 20%) and the engineering costs to 15% (from 30%). Mr. Parks also suggested inspection services at no more than 5% of the estimated construction costs.

Mr. Edward R. Kaufman, the Assistant Director with the OUCC's Water-Wastewater Division, testified regarding Chandler's request for authority to issue \$29,294,000 of long term debt. Mr. Kaufman recalculated an annual debt service based on a \$24,075,000 loan. He recommended that if Chandler does not issue its proposed debt within two (2) months after it has filed a revised tariff with the Commission, it should temporarily reserve the funds collected in rates for its 2018 debt and use those funds to offset/reduce the amount it borrows. Mr. Kaufman also recommended that within thirty (30) days of closing on its long-term debt issuance, Chandler should file a report with the Commission and serve a copy on the OUCC, explaining the terms of the new loan, including an amortization schedule, the amount of debt service reserve and all issuance costs. Mr. Kaufman suggested rates should be trueed-up, if necessary, to match Chandler's actual cost of debt service. Finally, Mr. Kaufman recommended that if Chandler spends any of the funds from its debt service reserves for any reason other than to make the last payment on its proposed 2018 debt issuance, it should provide a report to the Commission and the OUCC within five (5) business days.

Mr. Jerome D. Mierzwa, a principal and vice president of Exeter, evaluated Chandler's CCOSS and rate design proposals. He testified the maximum day and maximum hour extra capacity factors reflected in Chandler's CCOSS utilized to allocate the cost of providing service to each customer class were not properly determined and should be modified. Mr. Mierzwa recommended that Chandler's proposed distribution of the revenue increase authorized by the Commission in this proceeding should be revised to reflect Mr. Mierzwa's modified customer class extra capacity factors.

**C. Chandler's Rebuttal Case.** On rebuttal, Chandler offered testimony from Robert Coghill, Christopher Kaufman, and Scott Miller.

Mr. Robert Coghill provided rebuttal testimony in response to overall OUCC comments and explained the importance of Chandler's acquisition, construction, installation, and equipping of a road relocation project, line replacement, an additional transmission line, and related waterworks improvements. He noted that although the OUCC did not question the need for Chandler's Project, the OUCC's position undermines key aspects of the Project by understating estimated costs and putting restrictions on fund use. Mr. Coghill testified Chandler's Project satisfies the Indiana Legislature's objective of planning for long-term infrastructure improvements and promoting affordable utility services for present and future generations by prioritizing ongoing, annual infrastructure improvements so that investments in aging infrastructure are spread over many generations of ratepayers. Mr. Coghill also responded to specific issues raised by the OUCC concerning an Asset Management Program ("AMP"), noting that Chandler has taken substantial steps to set up an AMP even though no Commission regulation requires that Chandler develop an AMP until an SRF loan closes.

Mr. Christopher Kaufman provided rebuttal testimony in response to Mr. Parks's testimony regarding Chandler's allowances for contingencies and engineering costs. He explained that he disagreed with the OUCC's adjustment to project contingencies because it failed to consider (1) the Project's early stage, (2) the Project's size and scope, and (3) industry standards. Mr. Kaufman testified that contingency costs usually begin at 30% and are then reduced throughout design development to 10% when construction bids are ready in order to account for unknowns. He testified that for an estimate used at this early stage of project development, where the design is not complete, BLN recommends a contingency ranging from 15% to 30%. Considering the Project involves the addition of a large transmission line over substantial territory, and considering industry standards from four different guidelines, Mr. Kaufman applied a 20% contingency for Chandler's estimated construction costs.

Responding to the OUCC's adjustment to engineering costs, Mr. Kaufman testified that he based his engineering cost estimates on historical data, the actual cost of service under Chandler's current engagement with BLN, and the soft costs and unique challenges posed by the transmission line aspect of the Project. Mr. Kaufman also compared the Project to a linear transportation project and sponsored a report from the Transit Cooperative Research Program titled *Estimating Soft Costs for Major Public Transportation Fixed Guideway Projects*, included as Attachment JCK-3R, recommending that soft cost percentages be set at around 25 to 35 percent.

Mr. Scott A. Miller provided rebuttal testimony in response to Mr. Corey's testimony and addressed the OUCC's calculation and recommended adjustment to Chandler's proposed

rate increase and revenue adjustments to reflect test year customer growth. He also addressed Mr. Corey's proposed adjustments to operating expenses and SDC, as well as Mr. Parks's estimation of total project costs and adjustments to water meter maintenance expense. In response to Mr. Edward Kaufman, Mr. Miller addressed OUCC concerns related to the project costs and financing plan, the OUCC's proposed reduction in project costs by an arbitrary \$5.2 million, and the resulting reduction in debt service. Mr. Miller also addressed the OUCC's proposed restrictions on debt service reserve and Mr. Mierzwa's evaluation of Petitioner's CCOSS and rate design proposals.

## **6. Commission Discussion and Findings.**

**A. Petitioner's Project.** We begin by noting the Parties agree about the need for Petitioner's Project. OUCC witness James Parks agreed that "the three water main projects are necessary. . . ." Public's Ex. 2, p. 11, lines 23-24. Mr. Parks also highlighted Petitioner's leaking aged water mains that it seeks to replace in this case. Public's Ex. 2, p. 4, lines 10-14. This case does not revolve around the need for Petitioner's proposed Project. Rather, the primary dispute between the Parties is how to estimate costs for the Project and details of financing for those costs.

**B. Chandler's Proposed Financing.** The Commission's task is to approve a level of rates and charges that is reasonable and just. To be reasonable and just, the revenues to be produced must be sufficient to, among other things, "provide adequate money for making extensions and replacements to the extent not provided for through depreciation." Ind. Code § 8-1.5-3-8(c)(5). Chandler seeks adequate money from a combination of debt and rate revenues. We will begin with the proposed debt issuances.

Our standard typically applied for approving municipal utility financing is whether the "request to issue long-term debt to fund capital improvements and pay for certain operation and maintenance expenses is reasonable and necessary in order for . . . [the municipal utility] to provide adequate and efficient water service." *City of Michigan City*, Cause No. 44538 (IURC 5/27/2015), p. 10. Chandler requested authority to issue long-term debt in a principal amount not to exceed \$29,294,000. The OUCC through witness Edward Kaufman recommended Chandler's borrowing authority be reduced by \$5,219,000 to \$24,075,000. Moreover, Chandler added 45 basis points to the current SRF interest rate to account for interest rate risk until the bonds close, but the OUCC suggests a 25-point reduction and uses a 20-basis point adder instead.

We must note at the outset that Petitioner testified numerous times, both in rebuttal testimony and at the hearing, its willingness to be subject to a debt service true-up upon completion of the financing. The proposed true-up report would be filed after the bonds are issued, including an updated amortization schedule with the actual interest rates on the bonds, amount borrowed, and the resulting true-up water rates and charges. Petitioner also agreed to true-up the bond sizing for any grants received or changes to the project costs resulting from actual construction bids. As a result, we find that the OUCC's concerns about cost estimates and any over-recovery resulting from a delay between the order and issuance can be addressed through this true-up mechanism.



(a) **Contingency Costs.** The OUCC recommended a reduction to Chandler's estimated construction contingency costs from 20% to 10%. We note that although Petitioner's PER has now been submitted to the SRF, Petitioner has not yet received approval for the projects and accompanying capital requested in this Cause to perform the work, so it has not engaged in most of the typical survey and other related work. As a result, Petitioner relies on major estimate assumptions in technical information and quantities, heavy reliance on cost engineering judgment, historical and industry data, and little specific crew-based costs. We also note that Petitioner will be bidding this project during an economic period when construction costs are rising because of increased inflation and tariff battles. Substantial unknowns remain.

Traditionally, cost contingency estimation relies heavily on expert judgment based on various cost-engineering standards. Petitioner introduced several industry standards – including from the American Association of Cost Estimators, Electric Power Research Institute, Construction Management Association of America, and the U.S. Army Corps of Engineers – supporting its 20% contingency cost at this stage of the Project. In a prior water rate case with little evidence of a reasonable cost amount, we used a 15% contingency cost. *Kingsbury Utility*, Cause No. 44589 (IURC, 10/05/2016). In this case, with more substantial unknowns at an early stage of design, a 20% contingency is certainly in line with industry standards.

We are also persuaded by the true-up mechanism that will require a true-up for any changes to the project costs resulting from actual construction bids. If less contingency is necessary, the true-up mechanism will account for that. Moreover, in most cases SRF will not fund a contingency allowance greater than 10% of the construction bid amount, potentially making the disagreement moot. Taking all these factors into account, we find a 20% contingency for Chandler's estimated construction costs to be reasonable for this particular Project at this particular stage of design.

(b) **Engineering Costs.** The OUCC recommended a reduction to Chandler's estimated engineering costs from 30% to 15%. For some costs, such as the Bell Road relocation, Petitioner used the actual cost of service under Chandler's current engagement with BLN. In other situations, OUCC witness Parks used an average of \$125 per hour billable charge, which does not appear to capture the actual average market pricing. The largest engineering cost component on a percentage basis originates from construction observation and administration, which OUCC witness Parks suggests should be capped at 5% of the construction cost, but Petitioner testified is below industry standards. Petitioner witness Kaufman also testified that he relied on engineering cost estimates from BLN's experience with prior projects. If less engineering costs are necessary, the true-up mechanism will account for that. Thus, regardless of whether Chandler's engineering cost estimates end up being the Project's actual costs, we find that the OUCC's concerns can be addressed by the true-up mechanism. Taking this true-up mechanism and the evidence into account as a whole, we find sufficient justification for Petitioner's proposed engineering costs of 30%.

(c) **Interest Rate.** As discussed previously, Chandler added 45 basis points to the current SRF interest rate to account for interest rate risk until the bonds close, but the

OUCC suggests a 25-point reduction and uses a 20-basis point adder instead. The OUCC offered no explanation for its reduction, other than to state that "...such a large adder is unnecessary, and I have used a 20-basis point adder." Public's Ex. 5, p. 3, lines 19-20. We note that there is a distinct possibility that the actual interest rate could rise by the time of the debt issuance because Chandler's project is below the SRF's fundable range and subsidized project funding may be limited to the first \$7.5 million, which could force Chandler to access the spring pooled financing which has higher interest rates. We find no reason to implement an effective interest rate cap because the SRF will dictate the interest rate, which Chandler cannot influence, and because Chandler will file a true-up report after the bonds are issued, including an updated amortization schedule with the actual interest rates on the bonds, amount borrowed, and the resulting true-up water rates and charges. Any other result could force Petitioner to seek modification of this Order and cause unneeded additional costs for the ratepayers.

We also wish to address the OUCC's concerns over the gap in time between when Chandler receives its Order and files its revised tariff and when the bonds are issued. If it takes more than two months to issue the proposed bonds after the Order is issued, OUCC witness Kaufman proposes to reduce the bond funding by a portion of the revenues collected for the debt service on the 2018 bonds for those months between the issuance of the Order and closing on the bonds if that time period exceeds two months. We accept Petitioner's approach of allowing Petitioner to recover and bank revenues collected for debt service for up to 8 months after the issuance of the Order and prior to the closing on the bonds. Although this outcome is unlikely because Petitioner wants to begin its project as soon as possible, it should provide necessary assistance for Chandler's poor liquid cash reserves if the SRF pooled financing does not occur in the spring as planned. Eight months of debt service revenue banking would improve Petitioner's liquidity and cash reserves metrics to yield a score placing Petitioner in the middle of S&P's rating scale. We therefore find that Petitioner shall be allowed to recover and bank revenues collected for debt service for up to 8 months after the issuance of the Order and prior to the closing on the bonds.

**(d) Debt Service Reserve.** Because we accept Petitioner's proposals for debt issuance and subsequent annual debt service, we therefore accept Petitioner's debt service reserve figure of \$180,149 as well. We also find, however, that Petitioner shall notify the Commission and the OUCC within ten business days if it spends any funds from its debt service reserves for any reason other than to make the last payment on its current or proposed debt issuances.

**C. Petitioner's Revenue Requirements.** This case is driven by Chandler's proposed infrastructure replacement program. As we noted earlier, our task is to approve a level of rates and charges that is reasonable and just. Reasonable and just rates are those which produce sufficient revenue to:

- (1) pay all the legal and other necessary expenses incident to the operation of the utility, including:
  - (A) maintenance costs;
  - (B) operating charges;
  - (C) upkeep;

- (D) repairs;
  - (E) depreciation;
  - (F) interest charges on bonds or other obligations, including leases; and
  - (G) costs associated with the acquisition of utility property under IC 8-1.5-2;
- (2) provide a sinking fund for the liquidation of bonds or other obligations, including leases;
  - (3) provide a debt service reserve for bonds or other obligations, including leases, in an amount established by the municipality, not to exceed the maximum annual debt service on the bonds or obligations or the maximum annual lease rentals;
  - (4) provide adequate money for working capital;
  - (5) provide adequate money for making extensions and replacements to the extent not provided for through depreciation in subdivision (1); and
  - (6) provide money for the payment of any taxes that may be assessed against the utility.

We now turn our discussion to the revenue requirements by reiterating that Petitioner agrees to true-up the bond sizing for any grants received or changes to the project costs resulting from actual construction bids.

**(a) Revenue Adjustments.**

(i) *Customer Growth Normalization Adjustment.* Petitioner proposes three revenue normalization adjustments: (1) a \$59,102 increase to residential metered sales; (2) a \$2,127 decrease to commercial metered sales; and (3) a \$20,276 increase to large commercial metered sales. OUCC witness Corey testified he disagreed with portions of this adjustment because, he alleged, Chandler’s “large commercial” revenue category includes industrial customers and that these industrial revenues are inappropriately normalized. Public’s Ex. 1, p. 5, lines 18-21. Mr. Corey recommended a net increase of \$11,454 to test year residential operating revenues and a net increase of \$207,108 to test year commercial operating revenues, for a total net increase of \$218,562 to test year operating revenues. In Mr. Miller’s rebuttal to the OUCC, he testified that Petitioner inadvertently coded some sales in a schedule which was subsequently corrected. Using the corrected data, Mr. Miller recommended in his rebuttal a net increase of \$67,922 to test year operating revenues of \$2,933,212 which yields *pro forma* operating revenues of \$3,001,134. He also stated that Petitioner does not object to Mr. Corey’s elimination of the industrial customer normalization adjustment originally proposed in Chandler’s direct testimony and exhibits.

We find that customer normalization adjustments agreed to by the Parties reflect residential and commercial customer growth during the test year and is consistent with the methodology used in previous cases and accepted both by this Commission and the OUCC. We find there is sufficient fixed, known, and measurable evidence with the proper number of and corrected data points to support a \$60,662 increase to residential metered sales and a \$6,710 increase to commercial metered sales in this Cause.

(ii) *Non-operating Revenue.* The OUCC proposes including \$21,045 of certain test year non-operating revenues for water refunds and reimbursements as an offset to Petitioner's revenue requirement "unless there is evidence these revenues are restricted or will not recur in the future." Public's Ex. 1, p. 4, lines 22-24. Mr. Miller agreed that two items identified totaling \$1,594 should be used as an offset to revenue requirements but disagreed with the remaining adjustments because they represented non-recurring refunds and reimbursements related to operations outside the test year. We accept Petitioner's adjustment and note that several of the individual transactions comprising the \$21,045 occurred outside of the test year. Our agreement with Petitioner on this issue is further supported by the fact that other non-operating receipts averaged approximately \$2,957 over the three-year period 2014 to 2016.

**(b) Expenditure Adjustments.** In addressing Petitioner's operating expense adjustments, we note at the outset that the Parties agree on Petitioner's adjustments to salaries and wages, employee pensions and benefits, purchased power, and postage. The OUCC also accepted Petitioner's adjustment to remove certain non-recurring and capital costs. We agree with the Parties' position and therefore focus only on the areas of disagreement: adjustments to periodic maintenance expense, utility receipts tax expense, and an adjustment to remove additional test year transactions that are non-recurring, non-allowed, or capital in nature.

(i) *Periodic Maintenance Expense.* Petitioner proposed a *pro forma* periodic maintenance expense totaling \$275,608, which consists of the following components: (1) tank maintenance of \$143,205, (2) meter replacement of \$105,546, (3) wells and pumps maintenance of \$24,000, and (3) filter overhaul of \$2,857. After reviewing portions of Petitioner's contracts for tank maintenance services, OUCC witness Corey recommended a reduction for tank maintenance. On rebuttal, Mr. Miller testified that the OUCC failed to consider addendums to the tank maintenance service contracts included as Petitioner's Attachment No. SAM-R4. When the entirety of the contract is considered, we find Petitioner's allowance for tank maintenance expense to be reasonable and justified.

Regarding Petitioner's adjustment for meter replacement expense, OUCC witness Corey testified that meter replacement represents a capital expenditure rather than a periodic maintenance expense and falls in the category of an extension and replacement ("E&R") or depreciation expense revenue requirement. On rebuttal, Mr. Miller testified that the OUCC's position would not produce sufficient funds to address necessary capital improvements. Although the classification of these types of expenditures is open to judgement, he noted that in Petitioner's most recent rate case, IURC Cause No. 43658, the approved rates and charges included an allowance for meter replacement of \$91,984 per year and was incorporated as part of operations and maintenance ("O&M") expense. We agree with Petitioner that the exact same methodology for meter replacement has been incorporated in this case as in prior cases and that changing the parameters of "appropriate" rate-making at this juncture is unfair to Petitioner given its reliance on prior cases as a guide to develop its current request.

We therefore reject all the OUCC's proposed adjustments to Chandler's periodic maintenance expense and find Petitioner's total test year *pro forma* periodic maintenance expense to be \$275,608 in this Cause.

(ii) *Utility Receipts Tax Expense.* Regarding Petitioner's utility receipts tax expense adjustment, the OUCC asserted in Mr. Corey's rebuttal that only revenues generated from the provision of utility services are subject to utility receipts tax. Accordingly, the OUCC excluded certain exempt revenues totaling \$181,577. In his rebuttal, Petitioner witness Miller testified that he had no objection to the additional revenue line items the OUCC deducted from its calculation. We agree that only revenues generated from the provision of utility services are subject to utility receipts tax and adopt the OUCC's adjustments for utility receipts tax expense.

(iii) *Other Expense Issues.* Petitioner witness Scott Miller proposed removing \$554,399 in test year operating expenditures as non-recurring or capital items. Such expenses included disbursements associated with eminent domain proceedings, water line relocation costs, gate operator replacement costs, and water improvements along the Warrick Trail. Although OUCC witness Corey accepted Petitioner's items for elimination, Mr. Corey also proposed an additional \$23,039 in expenditures be capitalized and removed from operating expense to calculate rates using Petitioner's capitalization threshold of \$1,000 or greater. Mr. Corey also recommended a disallowance for celebrations, donations, and gifts for its employees during the test year (\$3,605) and amortizing the development of a manual for developer installed water mains (\$21,000). On rebuttal, Mr. Miller noted that although Petitioner does not oppose the adjustment, it laments the impact on its workforce. Mr. Miller then addressed the OUCC's recommended elimination of \$23,039 relating to six individual invoices for engineering services, noting that Chandler believes some are ongoing and normal expenditures for engineering services that occur routinely throughout the course of a year. Finally, Mr. Miller testified that he did not oppose the OUCC's recommended elimination and subsequent amortization of expenditures related to preparation of the manual for developer-installed water mains but suggested the calculations should include the total cost of the work.

We accept the Parties' agreement to eliminate employee recognition expenses. We also accept the Parties' agreement to eliminate and subsequently amortize expenditures related to preparation of the manual for developer-installed water mains but we include the total cost of the work (\$36,500). Regarding the other costs in dispute, we are persuaded by Mr. Miller's rebuttal testimony showing that work related to support the variable frequency drives at the water plant represents normal recurring engineering contractual services and should not be eliminated. As a result, we accept Petitioner's compromise position that eliminates an additional \$13,656 (as opposed to \$23,038) in costs as non-recurring and non-allowed.

**D. Cost of Service and SDC.** The Parties generally agree on the use of the base-extra capacity methodology, under which investment and costs are first classified into four primary functional cost categories: base or average capacity, extra capacity, customer, and fire protection. Once investment and costs are classified to these functional categories, they are

allocated to the various customer classes. However, the OUCC expressed concern that Chandler used theoretical maximum day capability rather than utilizing actual maximum system demands. The OUCC also recommended modifying Chandler's functionalization of water treatment purchased power costs so that they are functionalized entirely as base costs. Although purchased power related to treatment plant operations generally tracks the amount of water produced and would thus be allocated to the Base cost function, a component of these bills should be allocated to maximum day extra capacity. Specifically, the percentage of power bills related to demand should be multiplied by the factor used to allocate treatment plant capital cost to maximum day extra capacity. Consequently, using the data provided by the Parties in evidence, 9.6% of Petitioner's power cost should be allocated to maximum day extra capacity resulting in \$140,398 allocated to Base and \$14,892 allocated to Maximum Day Extra Capacity.

Regarding the implications of applying a theoretical versus actual maximum day factor, we acknowledge our preference for the use of actual data when possible but recognize that doing so in this instance has an immaterial impact on the overall COSS results. However, based on the data provided by the Parties in evidence, doing so would have the effect of increasing the allocation of costs to the residential class and the fire protection class. Given that the fire protection charge is a flat monthly charge based on meter size, the combination of increased cost allocation to these two classes negatively impacts the low volume residential customer. Therefore, we are persuaded to authorize Chandler to adjust its rates and charges as more fully described below using the cost allocation methodology contained in Petitioner's corrected Rebuttal Attachment SAM-R1.

Regarding Chandler's proposal to update its current SDC, OUCC witness Corey disagreed with the initial amount of utility plant in service and the deductions for accumulated depreciation and contributions in aid of construction. Based on the evidence of record, and the discussion above regarding capitalized items, we agree with Petitioner that the correct net investment in plant as of the end of the test year, August 31, 2017, should be \$24,547,214. We also agree that a deduction for outstanding debt in the amount of \$7,609,000 is appropriate when calculating a revised SDC. We therefore find that Petitioner's revised SDC of \$1,395 for a 5/8 inch equivalent is appropriate and should be approved.

**E. Petitioner's Authorized Rates.** We find that Petitioner's revenue requirements are as proposed by Petitioner on rebuttal which are summarized below:

Operation and Maintenance Expense	\$1,910,164
Taxes Other Than Income	\$85,875
Depreciation Expense	\$639,273
Debt Service	\$1,621,796
Debt Service Reserve	\$180,149
Total Revenue Requirements	\$4,437,257
Less: Interest Income	\$(4,640)
Less: Other Operating Receipts	\$(51,404)
Less: Non-Operating Receipts	\$(1,594)
Add: Additional Utility Receipts Tax	\$20,018
Net Revenue Requirements	\$4,399,637

Less: Revenue at Current Rates	\$2,949,730
Net Revenue Increase Required	\$1,449,907
Recommended % Increase	49.2%

Based on the evidence, the Commission finds that Petitioner's current rates and charges are insufficient to satisfy Petitioner's annual pro forma net revenue requirements. As shown above, Petitioner's total annual operating revenue is \$\_\_\_\_\_. Accordingly, Petitioner's existing rates are insufficient to recover Petitioner's revenue requirement and should be increased to produce an additional \$1,449,907 in annual operating revenues.

**E. True-Up Report.** Petitioner proposed, and we find, that Petitioner shall file a true-up report with the Commission under this cause number and serve a copy thereof on the parties of record within 30 days of closing on each issuance of long-term debt. The true-up report shall include an amortization schedule with the actual interest rates on the bonds, amount borrowed, and the resulting trued-up water rates and charges. Further, Petitioner shall include a calculation of any "overcollection" of revenues that results from the period between approval of the respective tariff in question and the closing on the issuance of the long-term debt. If either party determines that the increase or decrease would be immaterial, the Parties shall so inform the Commission as part of the true-up report or through a subsequent filing. If no such determination is made, or if otherwise ordered by the Commission after the true-up report is filed, Petitioner should file an amended tariff.

**IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:**

1. Petitioner is authorized to increase its rates and charges to produce additional revenues from rates of \$3,001,134, a 49.2% increase in rate revenues, resulting in total annual rate revenue of \$4,399,637.
2. Petitioner is granted a Certificate of Authority to issue additional long-term debt in one or more issues to the SRF or pursuant to competitive sale or private placement at or below competitive market rates and in principle amount not to exceed \$29,294,000 million as approved herein. This Order shall be the sole evidence of Petitioner's certificate.
3. Petitioner shall file under this Cause new schedules of rates and charges with the Water/Wastewater Division of the Commission on the basis set forth above. Petitioner's new schedules of rates and charges shall be effective upon filing and after approval by the Water/Wastewater Division.
4. Petitioner shall file a true-up report as provided in Finding Paragraph 6E.
5. In accordance with Ind. Code § 8-1-2-70, Petitioner shall pay the following itemized charges within 20 days from the date of the Order, into the Treasury of the State of Indiana, through the Secretary of the Commission:

Commission Charges	\$
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OUCC Charges	\$
Legal Advertising Charges	\$
Total	\$

6. In accordance with Ind. Code § 8-1-2-85, Petitioner shall pay a fee equal to twenty-five cents (\$0.25) for each one hundred dollars (\$100) of water utility revenue bonds issued, to the Secretary of the Commission, within thirty (30) days of the receipt of the financing proceeds authorized herein.

7. This Order shall be effective on and after the date of its approval.

**HUSTON, FREEMAN, KREVDA, OBER AND ZIEGNER CONCUR:**

**APPROVED:**

**I hereby certify that the above is a true  
and correct copy of the Order as approved.**